

Economic & Revenue Outlook

Presented to
House Finance Committee

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July 22, 2010
Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The June revenue forecast expected near-term weakness, and moved approximately \$200 million from this biennium to the next
- Activity appears to have weakened even more than anticipated, but the news is not as bad as the forecast variance suggests
- Downside risks to the forecast are higher now than a month ago
 - Europe
 - Construction
 - Confidence
 - Credit to small business
- The recovery will be a slow slog – but there are reasons for optimism in July

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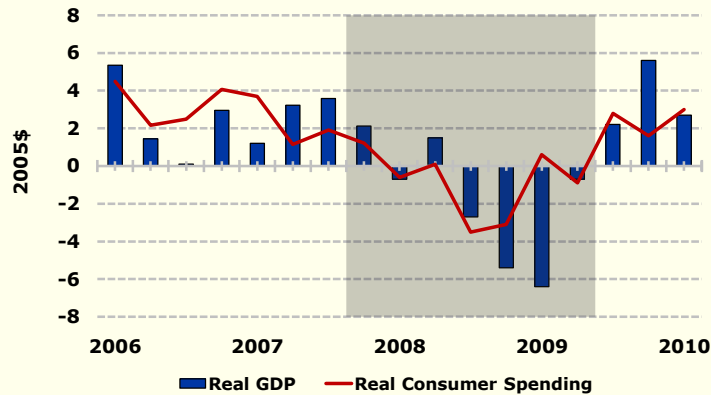
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We have had 3 consecutive quarters of GDP and consumer spending growth

Percent growth, SAAR



Source: BEA, data through 2010 Q1

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Forecast changes: General Fund State, 2009-2011 Biennium

**February
Forecast:**

**\$28,725
million**

USD millions	June '10 Forecast				
	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$34)	\$749	(\$159)	\$27,802	\$556
All other agencies	(\$5)	\$54	(\$47)	\$1,481	\$1
Total GF-S	(\$39)	\$803	(\$207)	\$29,282	\$558

* Detail may not add to total due to rounding

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Forecast changes: General Fund State, 2011-2013 Biennium

USD Millions

USD millions	February 2010 Forecast	Non-economic Change	June '10 Forecast		Total Change*
			Forecast Change	Forecast	
Dept. of Revenue	\$30,658	\$1,556	\$219	\$32,433	\$1,774
All other agencies	\$1,566	\$105	(\$21)	\$1,650	\$84
Total GF-S	\$32,225	\$1,661	\$197	\$34,083	\$1,858

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* Detail may not add to total due to rounding

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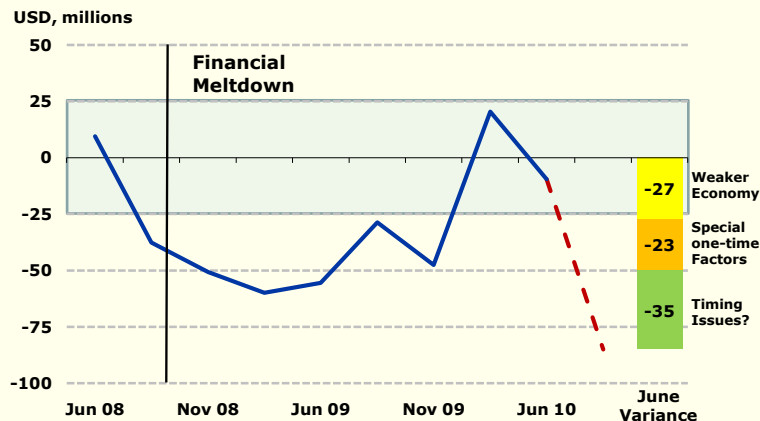
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The June revenue collection to forecast variance is very unusual

*Adjusted for June 2009 variance in Property Taxes

Average monthly variance at each forecast period*



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Inter-bank lending has tightened, but only marginally

The spread indicates the premium banks have to pay to borrow from each other

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USD 3m LIBOR - 3m US T-bill Spread
Basis Points



Source: British Bankers Association, US Federal Reserve Bank, ERFC; data through July 19, 2010

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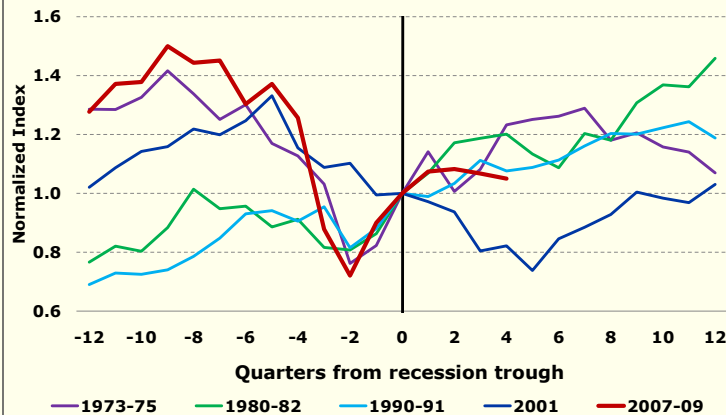


The recovery in equity markets has flattened out

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S&P 500 Index Normalized to Recession Trough



Source: Yahoo Finance; ERFC; data through July 19 2010

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The S&P 500 VIX volatility index indicates financial markets are nervous

This index is a proxy for fear and uncertainty in markets

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Source: Yahoo Finance; data through July 19, 2010

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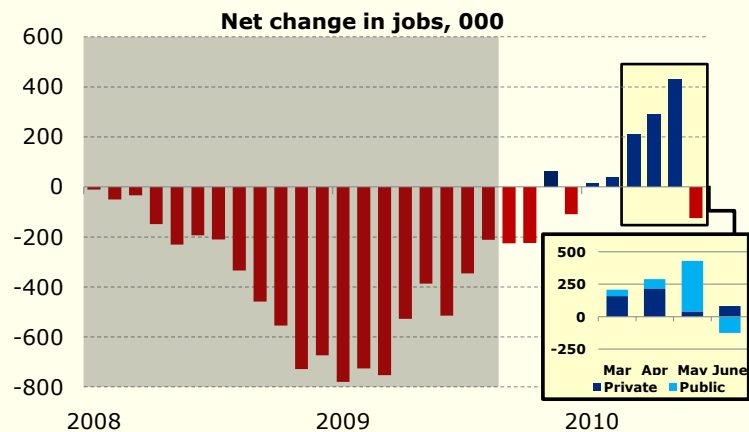


The U.S. jobs recovery stalled in May, and remains weak in June

Only 33,000 private sector jobs were added in May, down from 218,000 in April

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Source: BLS; data through June 2010

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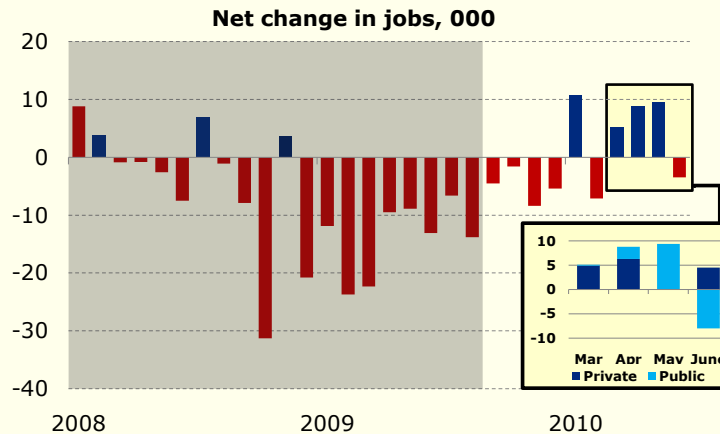


The WA jobs recovery shows the same pattern as the U.S. but was stronger in June

Only 100 private sector jobs were added in May, down from 6,300 in April

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Source: WA State Employment Security; data through June 2010

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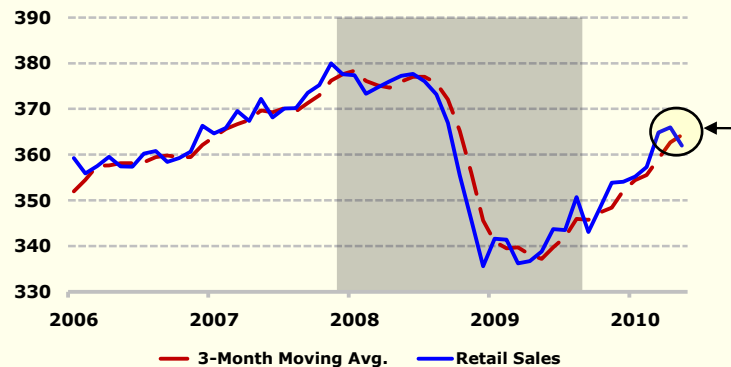


The retail sales recovery is taking a break

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U.S. Retail Sales and Food Services
USD, billions



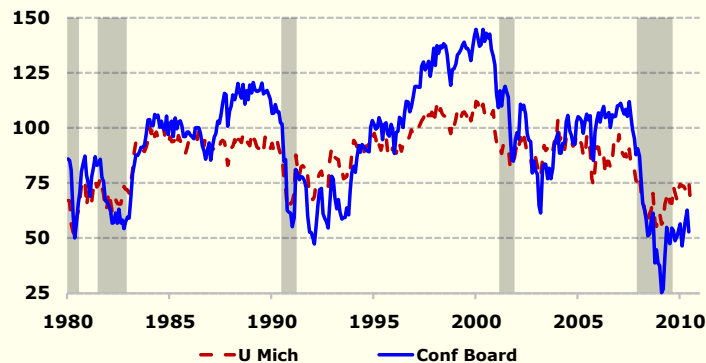
Source: U.S. Census Bureau; data through June 2010

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Consumer confidence remains weak

Index
Mich: 1966Q1 = 100, SA
Conf Board: 1985 = 100, SA



Source: University of Michigan; Conference Board, data through July 2010

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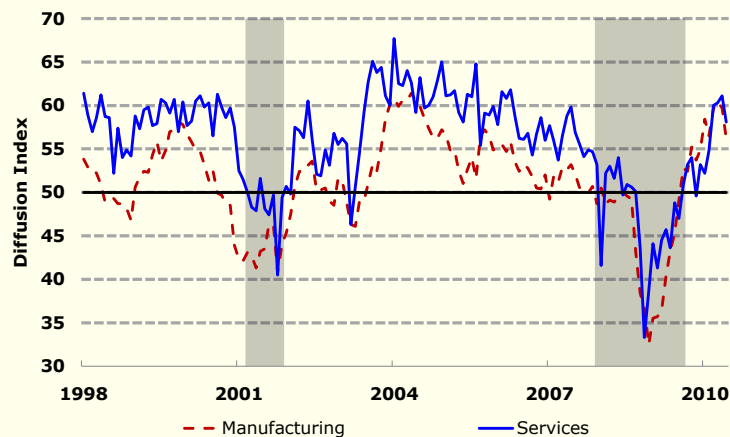
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ISM indices for both services and manufacturing indicate slowing growth

An index greater than 50, implies growth



Source: Institute of Supply Management; data through June 2010

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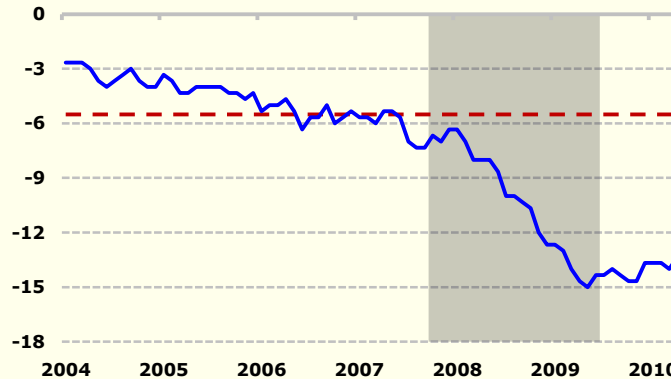
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Credit conditions remain tight for small business

Availability of Loans
Net Percent ("Easier" minus "Harder"), 3mma



Source: National Federation of Independent Business; data through June 2010

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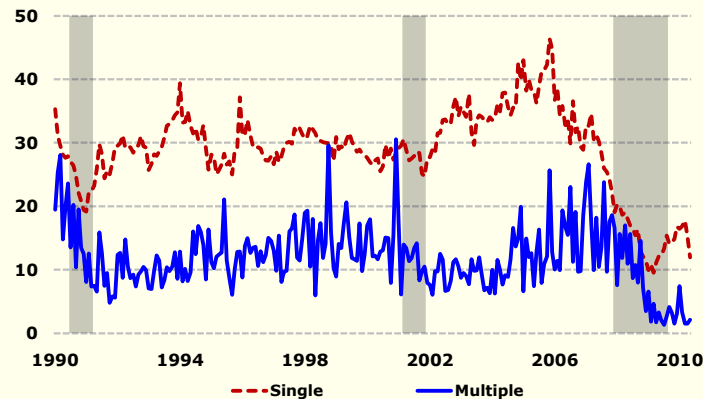
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WA single family housing has collapsed, now that the first time homebuyer tax credit has expired

Thousands, SA



Source: U.S. Census Bureau; data through May 2010

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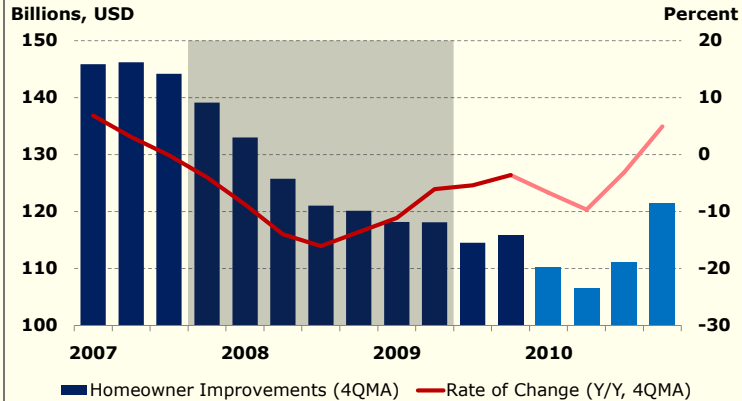
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Leading indicator suggests remodeling improvement in 2010

The Leading Indicator of Remodeling Activity (LIRA)



Source: Joint Center for Housing Studies of Harvard University, actual data through 2009 Q4

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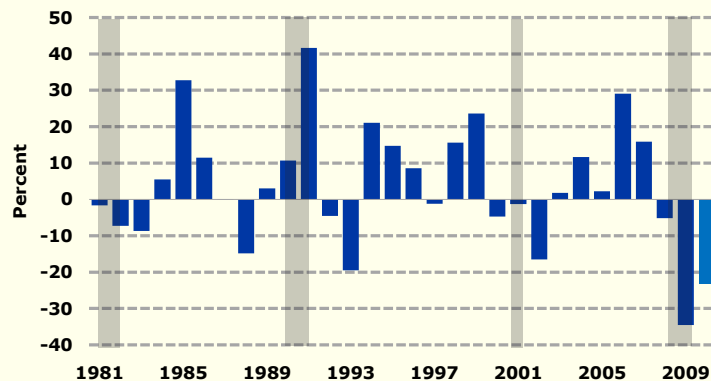
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This is the worst downturn in non-residential construction in 30 years

Non-Residential Contract Value Annual Percent Change



Source: McGraw-Hill Construction, data through June, 2010

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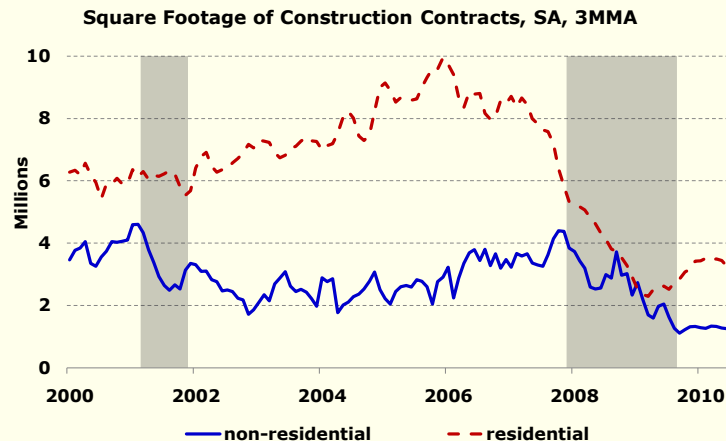


New construction in WA is no longer in free-fall, but the recovery will be weak

Residential square feet is up 55% since reaching a trough in Jan 2009

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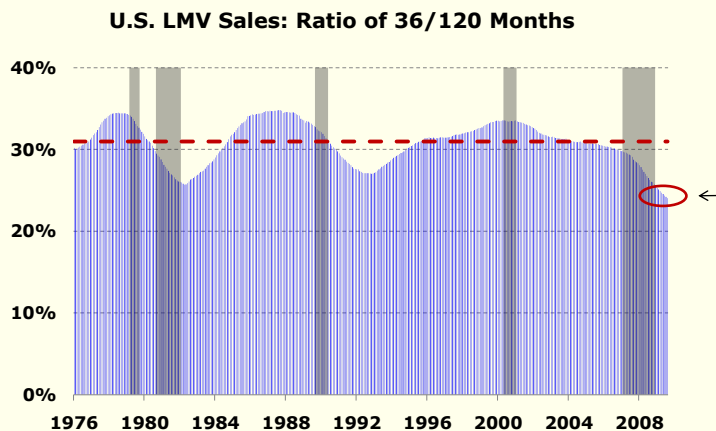


Relative age of the car fleet indicates continued turnaround in car sales

The percent of "old" cars on the road is at a historic high

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Source: Autodata Corporation, ERFC; data through June 2010

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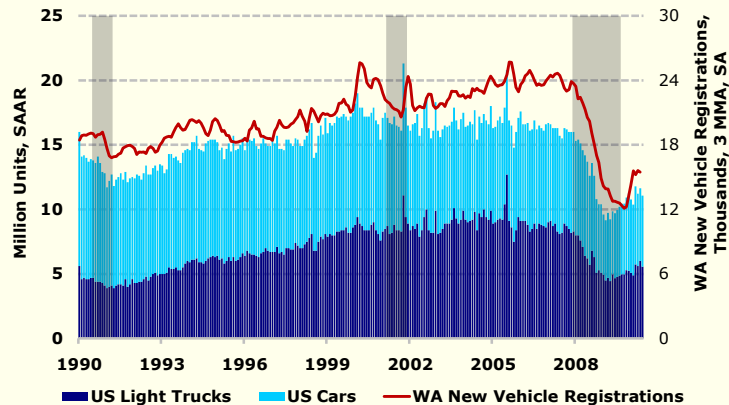
Automotive sales continue to improve

National car sales were 19% higher in May 2010 than in May 2009

Cash for Clunkers effect removed

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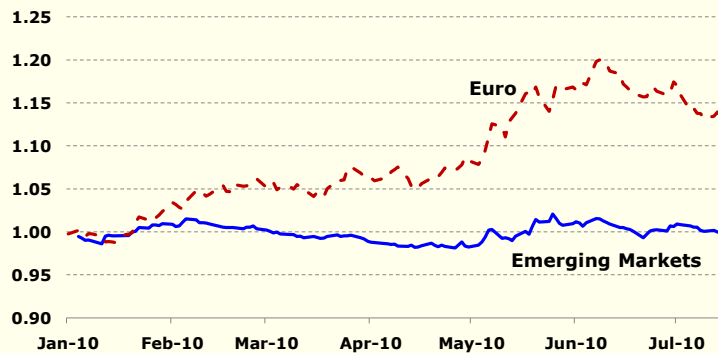
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The USD has appreciated against the EUR this year, but not against emerging market currencies

U.S. Dollar versus select currencies

Index, Dec. 31, 2009 = 1.0



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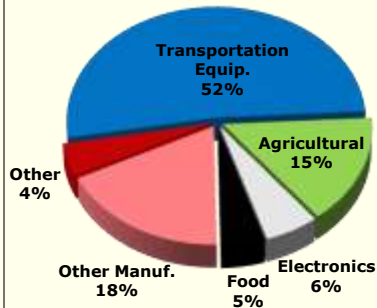
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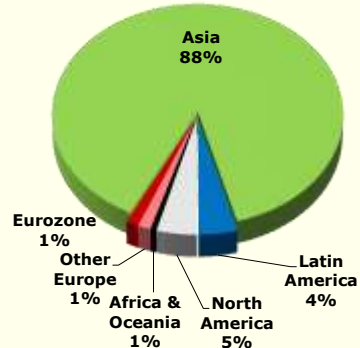
Washington exports much more to Asia than Europe

2009

By Industry



Agriculture



Source: Wiser Trade Data

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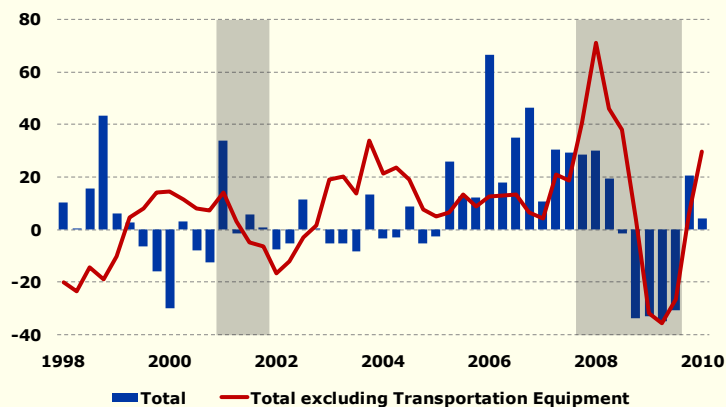
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Exports will help the state recover faster than the nation

Exports
excluding
transport
equipment
were up 30%
in Q1

Exports
Percent Change, year ago



Source: Wiser Trade Data; through 2010 Q1

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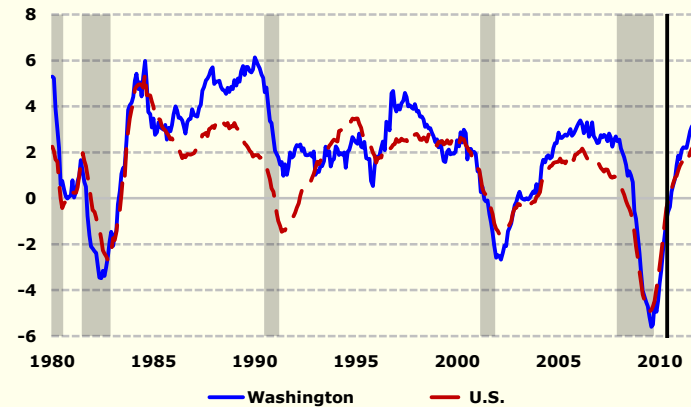
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WA employment lagged the nation in the downturn and will recover stronger than the nation

Percent change, year ago



Source: ERFC June 2010 forecast; actual through June 2010

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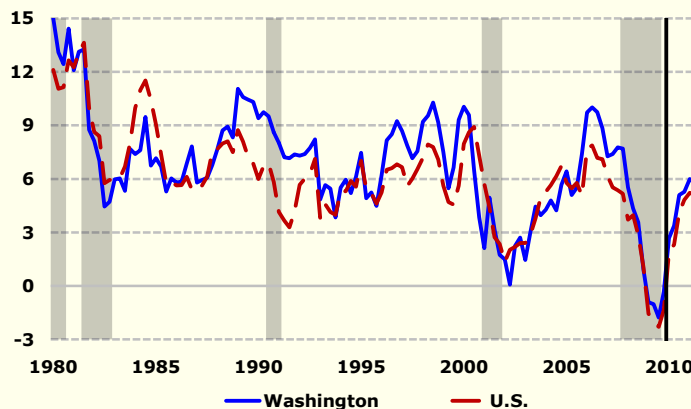
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The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago



Source: ERFC June 2010 forecast; actual data through 2010Q1

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Are there reasons for optimism about July activity?

- Recoveries are not smooth events
- Non financial companies have \$1.8 trillion in reserves
- Y/Y same store sales up 4.2% for week ending June 17, before back to school sales
- Automotive incentives are back on
- U/I back-pay will stimulate spending
 - More relevant for U.S. than WA
- WA job openings up 18% Y/Y in June
- Anecdotal evidence
 - Discretionary spending
 - Visitors

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Questions



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